

## Message Text

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ACTION EB-11

INFO OCT-01 ARA-16 ISO-00 COME-00 TRSE-00 STR-08 CIAE-00

INR-10 NSAE-00 RSC-01 OMB-01 CIEP-02 L-03 INT-08

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R 281250Z MAR 74

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC 2473

INFO AMCONSUL RIO DE JANEIRO

UNCLAS BRASILIA 2075

E.O. 11652: N/A

TAGS: EIND, ETRD, BR

SUBJECT: BRAZILIAN NOTE ON SCRAP QUOTAS

REF: A) STATE 036468; B) A-1565 DATED FEBRUARY 26, 1974

1. THE FOLLOWING REPORT HAS BEEN PREPARED BY MISSION  
SPECIALISTS CONSULATE RIO:

A. OWNING TO DEPARTURE FROM OFFICE OF OFFICIALS FROM THE RIO  
SECTIONS OF CONSIDER AND INSTITUTO BRASILEIRO DE SIDERURGIA (IBS)  
ARISING FROM THE RECENT CHANGE OF GOVERNMENT, WE HAVE ENCOUNTERED  
CONSIDERABLE DIFFICULTY IN RESEARCHING THE POSITIONS SET FORTH  
IN THE SCRAP STUDY PER REF B. THIS STUDY WAS DERIVED FROM A  
FULLER PAPER DATED JULY 26, 1973, PREPARED BY THE IBS ENTITLED  
MERCADO BRASILEIRO DE SUCATA DE ACO. WE HAVE BEEN TOLD BY IBS  
THAT THIS FULLER PAPER IS STILL THE MOST CURRENT EVALUATION OF  
THE SCRAP SITUATION IN BRAZIL. WE HAVE OBTAINED A COPY OF THIS  
FULLER PAPER AND ARE TRANSMITTING IT DIRECTLY TO STATE/WASHINGTON  
UNDER COVER OF RIO A-37.

B. OUR RESEARCH BASICALLY SUSTAINS THE MAIN POSITION OF THE  
BRAZILIAN NOTE, I. E., THAT BRAZILIAN SCRAP PRODUCTION IS  
RUNNING LESS THAN CONSUMPTION AND THAT THIS PRESENT RATE OF  
CONSUMPTION SHOWS A TENDENCY TOWARDS EXHAUSTION OF OLD  
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RESERVES.

C. THE PRESENT SCRAP SHORTAGE IS ONE RESULT OF BRAZIL'S  
DRAMATIC INCREASE STEEL PRODUCTION IN RECENT YEARS.  
THERE HAS BEEN A STRONG INCREASE IN STEEL OUTPUT FROM 1970  
TO THE PRESENT TIME, AND, ASSUMING, ALL EXPANSION PROJECTS  
PRESENTLY KNOWN ARE CARRIED OUT, THERE WILL BE EVEN SHARPER  
INCREASES IN STEEL PRODUCTION BY MID-1976. FROM 1970-73  
TOTAL STEEL INGOT PRODUCTION INCREASED 30 PERCENT, FROM  
APPROXIMATELY 5.4 MILLION TONS IN 1970 TO 7.1 MILLION TONS  
IN 1973. IN 1974 ALONE THE RATE OF INCREASE IS EXPECTED  
TO BE 20 PERCENT TO 8.5 MILLION INGOT TONS. IN 1976  
PRODUCTION IS FORECAST TO REACH 14 MILLION TONS OR  
APPROXIMATELY DOUBLE 1973 LEVELS. IN OUR OPINION, EXPANDED  
PRODUCTION FROM NEW PLANTS BEING INSTALLED WILL MEAN CONTINUED  
TIGHTNESS IN SCRAP AVAILABILITY IN BRAZIL AND CONTINUED  
STRONG SCRAP IMPORT DEMAND- REGARDLESS OF THE MEASURES TAKEN  
BY THE BRAZILIAN AUTHORITIES TO IMPROVE DOMESTIC SCRAP  
COLLECTION AND GENERATION AS OUTLINED IN THE FOLLOWING  
PARAGRAPH.

D. BRAZILIAN STEEL OFFICIALS IN BOTH PRIVATE AND PUBLIC  
DECLARATIONS HAVE DEPLORED THE UNFORESEEN SHORTAGE OF  
SCRAP AND ACCOMPANYING DEPENDENCY ON IMPORTS. TO RESOLVE  
THE PROBLEM THEY HAVE UNDERTAKEN THE FOLLOWING SPECIFIC  
ACTIONS:

1) ENACTED LEGISLATION TO DISCOURAGE STEEL EXPANSION  
FACILITIES BASED ON INCREASED SCRAP UTILIZATION E.G.  
EXPANSION ACHIEVED MERELY BY INSTALLATION OF ADDITIONAL  
ELECTRIC FURNACES (CONSIDER RESOLUTION N. 15 OF  
NOVEMBER 17, 1972, ARTICLE 5).

2) ENACTED LEGISLATION TO ENCOURAGE MODERNIZATION AND  
EXPANSION IN THE COLLECTION AND PROCESSING OF SCRAP  
BY GIVING THE CONSELHO E DESENVOLVIMENTO INDUSTRIAL (CDI)  
SPECIFIC AUTHORITY TO GRANT IMPORT AND FISCAL PRIVILEGES  
FOR RE-EQUIPPING THE SCRAP INDUSTRY (CDI RESOLUTION N. 16  
OF APRIL 3, 1972).

3) ENACTED LEGISLATION STIMULATING, THROUGH FISCAL INCENTIVES,  
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EXPANSIONS OF STEEL FACILITIES BASED ON THE PROCESS OF  
DIRECT REDUCTION TECHNOLOGY WHICH UTILIZES LITTLE  
SCRAP (CONSIDER RESOLUTION N. 15/72, ARTICLE 3). IN THIS  
REGARD, IT IS INTERESTING TO NOTE THAT THREE BRAZILIAN STEEL  
COMPANIES: USINA SIDERURGICA D BAHIA S.A.; ACOS FINOS  
PIRATINI S.A.; AND COMPANIA SIDERURGICA DA GUANABARA (COSIGUA)  
ARE PLANNING EXPANSION USING DIRECT REDUCTION  
SPONGE IRON PROCESS UTILIZING NO SCRAP. AS MENTIONED

IN THE BRAZILIAN NOTE COSIGUA PRESENTLY CONSUMES 250,000 TONS OF SCRAP PER YEAR FOR USE IN ITS ELECTRIC FURNACE. AFTER ITS EXPANSION PROJECT IS IMPLEMENTED, COSIGUA'S STEEL MAKING SHOP WOULD OPERATE ROUGHLY ON 60 PERCENT SPONGE IRON AND 40 PERCENT SCRAP AS OPPOSED TO THE PRESENT NEED FOR 100 PERCENT SCRAP. IF THESE THREE NEW INSTALLATIONS ARE SUCCESSFUL BRAZILIAN AUTHORITIES HAVE INDICATED THAT LOCALLY-PRODUCED SPONGE IRON WILL BE THEIR DEFINITIVE FUTURE SOLUTION TO CONTINUED PROBLEMS RELATED TO SCRAP SHORTAGES AND HIGH IMPORT PRICES.

4) FREED DOMESTIC SCRAP AND PIG IRON FROM PRICE CONTROLS. THIS SHOULD ENABLE PRICES TO RISE TO LEVELS AT WHICH DOMESTIC PRICES EQUAL IMPORT PRICES AND/OR THEY CAN NO LONGER BE ABSORBED BY THE INDUSTRY UNDER PRESENT STEEL PRICES. THESE TWO EFFECTS SHOULD STIMULATE GREATER DOMESTIC SCRAP COLLECTION AND CONSERVATION.

E. THERE ARE INDICATIONS HOWEVER IN THE FUTURE THAT INTERNAL SCRAP COLLECTION MAY BE INCREASED IN THE FUTURE WITH IMPROVED TRANSPORT CONNECTIONS AND STRONGER SCRAP INDUSTRY ORGANIZATION. AUTHORITIES INDICATED THAT SCRAP HAS ACCUMULATED OVER THE YEARS ACROSS A VAST AREA OF BRAZIL WHILE ITS CONSUMPTION HAS BEEN CONCENTRATED IN THE CENTER-SOUTH SAO PAULO RIO DE JANEIRO, MINAS GERAIS AND RIO GRANDE DO SUL. THE BACKWARDNESS OF THE SCRAP INDUSTRY HAS BEEN DEALT WITH BY INCENTIVES PREVIOUSLY MENTIONED FOR MODERNIZATION AND BY FREEING PRICES AS WELL AS BY PERMITTING THE CONSUMING STEEL COMPANIES THEMSELVES TO ESTABLISH COMMERCIAL SCRAP OPERATIONS. (TWO PRIVATE STEEL COMPANIES REPORTEDLY ARE TOWING DERELICT SHIPS PROCURED IN EUROPE AND US FOR SCRAPPING IN BRAZIL) THE ENTRY OF THE CONSUMING STEEL COMPANIES THEMSELVES INTO SCRAP COLLECTION MAY ALSO BE

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A RESPONSE TO OR A PREVENTIVE MEASURE AGAINST STOCKPILING OF SCRAP BY THE TRADITIONAL BROKERS ALTHOUGH WE HAVE NOT BEEN ABLE TO ESTABLISH THE EXISTENCE OF HEAVY STOCKPILING AND SPECULATION.

F. IN SUM, THE DIFFERENCE BETWEEN PRODUCTION AND CONSUMPTION OF SCRAP IN BRAZIL APPEARS TO BE THE NATURAL RESULT OF ITS SUDDEN ECONOMIC EXPANSION. DURING EARLIER PERIODS, BRAZIL'S LOW LEVELS OF STEEL PRODUCTION AND VERY LOW PER CAPITA STEEL CONSUMPTION MEANT A LOW LEVEL OF INTERNAL STOCKS OF STEEL GOODS WHICH COULD BECOME SCRAP. CONSEQUENTLY, BRAZIL APPARENTLY HAS NOT BUILT UP SUFFICIENT HISTORICAL RESERVES FROM STEEL MAKING AND METAL WORKING OPERATIONS NOR FROM THE TURNOVER OF OBSOLETE IRON AND STEEL PRODUCTS AND MACHINERY. THESE FACTORS HAVE PRODUCED SCRAP RESERVES IN COUNTRIES

THAT HAVE A LONG HISTORY OF INDUSTRIALIZATION. BRAZIL'S  
PRESENT SHORTAGE WILL PROBABLY CONTINUE THROUGH THE SEVENTIES AS  
SCRAP CONSUMPTION CONTINUES TO EXPAND AT HIGH RATES. A  
CHECK ON THIS CONSUMPTION SHOULD COME IN THE LONG-TERM  
AS BRAZILIAN PLANS FOR CONVERSION TO BOF FURNACES WITH  
LOW SCRAP CONSUMPTION ARE REALIZED.  
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## Message Attributes

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